

POPULAR ANNUAL FINANCIAL REPORT

for the Fiscal Year Ended June 30, 2014

ABOUT OTRS

OTRS was established in 1943 by the Oklahoma Legislature. As of June 30, 2014, the Plan consisted of 607 participating employers comprised of state institutions of higher education, state education entities, local school districts as well as career tech districts. The membership includes 89,570 active members, 10,704 inactive vested members, 9,735 inactive non-vested and 56,389 retirees and beneficiaries for a total of 166,398 members.

COMPREHENSIVE ANNUAL FINANCIAL REPORT ONLINE

The 2014 Popular Annual Financial Report of the Oklahoma Teachers Retirement System (OTRS) contains summary financial information from the 2014 Comprehensive Annual Financial Report. The full report can be viewed in its entirety online at www.ok.gov/TRS/publications

Growth and Progress at OTRS

OTRS Publishes First “Popular” Annual Financial Report

Dear Clients:

You are reading a first-of-its-kind publication for the Oklahoma Teachers Retirement System. It is a summarized version of the System’s official Comprehensive Annual Financial Report (CAFR) written in laymen’s terms. It’s shorter than the CAFR, but it still contains the most important statistics of your retirement plan.

Public education is a vital service provided by the State of Oklahoma. OTRS is the oldest and largest state pension plan. The System serves more than 165,000 clients employed by 607 employers. It is important for our clients to know the financial status of the System, and it is also important for state policymakers and Oklahoma citizens to have this information. Fiscal year 2014 was a very good year for OTRS from a financial standpoint with large asset gains and an improved actuarial funded status. We at OTRS are proud to serve Oklahoma’s educators and staff. The entire state benefits from the retirement income security OTRS provides to its clients. Your retirement system has been providing this service for more than seven decades and we hope to be around for a long time to come.

Sincerely,

Tom Spencer
Executive Director



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Plan Net Position

The "Plan Net Position" is calculated by taking the amount of assets of OTRS and subtracting liabilities restricted for payment of monthly retirement benefits and other qualified distributions to OTRS clients. A summary of net position restricted for benefits on June 30, 2014, 2013, and 2012, is shown to the right. As of June 30, 2014, OTRS net position was approximately \$14.4 billion.

Changes in Plan Net Position

OTRS is funded through a combination of member contributions, employer contributions, dedicated state revenue and investment earnings. For fiscal year 2014, plan net position increased \$2,399,867,116 or 19.93% primarily due to a 22.4% increase in investments and a 49.49% decrease in pending sales of securities partially offset by a 26.33% decrease in pending purchases of securities.

Deductions to plan net position are incurred primarily for the purpose for which OTRS was created, namely the payment of benefits to retirees. In fiscal year 2014, retirement, death and survivor benefits increased \$57,907,552 million or 5.29% due to a 3.31% increase in the number of retired members (1,808 members) and a .5% increase in the average benefit. Refunds and withdrawals also increased \$2,870,176 or 9.93% as more participants withdrew their contributions on severance of service in fiscal 2014. Administrative costs increased by \$125,738 (or 3.02%) primarily due to an increase in general and depreciation expenses.

CONDENSED SCHEDULE OF FIDUCIARY NET POSITION

	JUNE 30,		
	2014	2013	2012
ASSETS:			
CASH	\$ 17,695,733	\$ 14,903,504	\$ 24,936,734
RECEIVABLES	201,958,789	286,998,149	276,870,038
INVESTMENTS	14,531,814,990	12,133,453,542	10,414,998,956
SECURITIES LENDING COLLATERAL	2,475,662,654	2,363,777,689	1,764,088,842
CAPITAL ASSETS, NET	2,848,571	2,180,235	1,543,239
TOTAL ASSETS	17,229,980,737	14,801,313,119	12,482,437,809
LIABILITIES:			
OTHER LIABILITIES	314,844,654	397,929,117	313,564,107
SECURITIES LENDING COLLATERAL	2,475,662,654	2,363,777,689	1,764,088,842
TOTAL LIABILITIES	2,790,507,308	2,761,706,806	2,077,652,949
NET POSITION RESTRICTED FOR PENSIONS	\$ 14,439,473,429	\$ 12,039,606,313	\$ 10,404,784,860

CONDENSED SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION

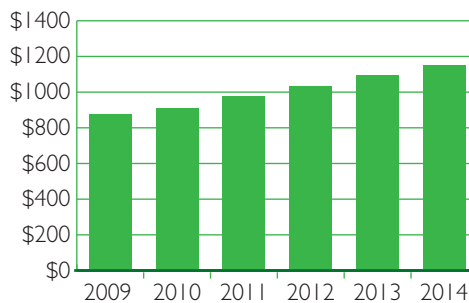
	JUNE 30,		
	2014	2013	2012
MEMBER CONTRIBUTIONS	\$ 301,300,811	\$ 290,044,395	\$ 291,385,506
EMPLOYER CONTRIBUTIONS	386,895,127	373,789,020	376,635,234
MATCHING CONTRIBUTIONS	24,352,831	26,995,423	23,188,952
DEDICATED TAX REVENUE	295,804,717	300,509,886	281,806,711
MEMBER TAX SHELTER CONTRIBUTIONS	3,026,532	2,910,706	3,448,031
NET INVESTMENT INCOME	2,587,292,673	1,783,073,902	134,376,020
SECURITY LENDING NET INCOME	8,590,136	9,531,387	9,279,228
TOTAL ADDITIONS	3,607,262,827	2,786,854,719	1,120,119,682
BENEFIT PAYMENTS	1,153,051,607	1,095,144,055	1,036,132,586
REFUNDS OF MEMBER CONTRIBUTIONS AND TAX SHELTERED ANNUITY	50,061,499	52,732,344	54,737,731
ADMINISTRATIVE EXPENSES	4,282,605	4,156,867	4,273,189
TOTAL DEDUCTIONS	1,207,395,711	1,152,033,266	1,095,143,506
NET INCREASE IN NET POSITION	\$ 2,399,867,116	\$ 1,634,821,453	\$ 24,976,176

Benefits Paid to Clients

Clients qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member on or after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90). Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

The Schedule of Benefits Payments below provides information on the total benefit expenses incurred by the Plan consisting of age and service, disability, and beneficiary death benefits.

SCHEDULE OF BENEFITS PAYMENTS (in millions)



Investments

The Board of Trustees follows the "Prudent Investor Rule" which is considered the highest standard in making investment decisions for the Plan. The Board and its advisors invest the Plan's assets for the sole interest of our clients and their beneficiaries. In addition, funds are to be diversified to minimize the risk of large losses, unless under the

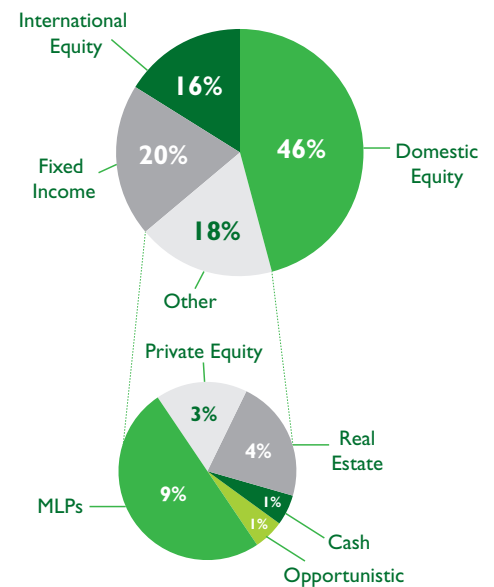
circumstances it is clearly prudent not to do so. The Plan's overall investment return for the year ended June 30, 2014 was 22.4 percent. The increase in the Plan's managed investments is reflective of the increase in virtually every asset class in the portfolio for the year. The Rate of Return table below reflects overall investment returns for the Plan over the past five fiscal years.

RATE OF RETURN	
Year Ending June 30,	Total
2014	22.4%
2013	17.8%
2012	1.8%
2011	23.5%
2010	16.6%

The Board of Trustees has established the Statement of Investment Policy to guide investment decisions and outline the overall investment philosophy of the Plan. The primary goal of the Plan is total return, consistent with prudent investment management standards. Total return includes income plus realized and unrealized gains and losses on Plan assets. In addition, assets of the Plan are invested to ensure that principal is preserved and enhanced over time. All investments are managed by external investment managers. The managers are required to follow the investment policy and their respective mandates, but may use discretion within the policy and guidelines. To achieve long-term returns while maintaining the goal of capital preservation, TRS has adopted a diversified policy asset allocation that is carried out largely by active management. The resulting portfolio is designed to enhance long-term returns while lowering short-term volatility. At fiscal

yearend, the Plan employed 27 investment management firms across several asset classes and areas of expertise. For fiscal yearend 2014, the plan achieved a 22.4 percent return. The annualized rate of return was 13.6 percent over the last three years and 16.1 percent over the last five years. The allocation of the investment portfolio as of June 30, 2014 is shown in the Asset Mix chart below.

ASSET MIX June 30, 2014



Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. It must also have a revenue source sufficient to keep up with future obligations. The funding objective for OTRS is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a

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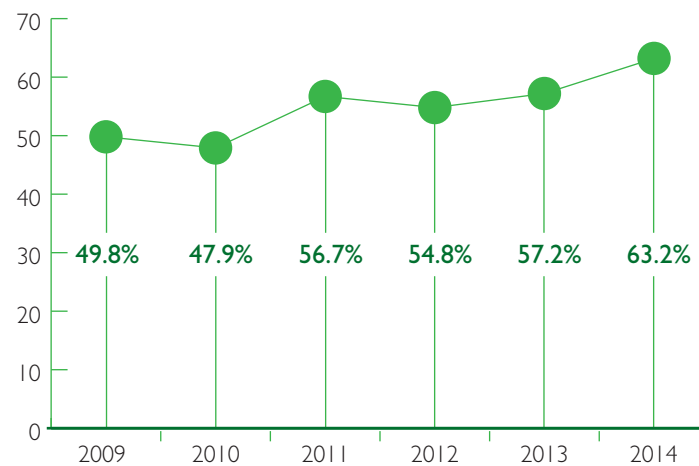
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well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability (the amount the System owes) and actuarial value of assets (the amount the System has) of OTRS as of July 1, 2014, amounted to \$19.5 billion and \$12.3 billion, respectively.

The OTRS funded status was 63.2 percent at June 30, 2014, compared to 57.2 percent at June 30, 2013. The key item responsible for the change in funded status was an actuarial asset gain of \$819 million. In addition legislation enacted in 2011 increased the funded ratio since that time. This new legislation required cost of living adjustments to be funded by the Legislature before they can be passed into law and provided for the removal of the cost of living adjustment assumption from actuarial assumptions and methods. The Funded Ratio chart above right shows the change in funded status over the past five fiscal years.

FUNDED RATIO



OTRS Awarded For Excellence In Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Annual Financial Reporting to the Oklahoma Teachers Retirement System for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. The Award for Outstanding Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To receive an Award for Outstanding Achievement in Annual Financial Reporting, a government unit must publish a Comprehensive Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Annual Financial Reporting is valid for a period of one year only. OTRS has received the award for the last 21 consecutive years. We believe our current CAFR continues to conform to the award requirements, and it has been submitted to the GFOA.

In addition, this new shorter version of financial statistics may be submitted to the GFOA for consideration of its award program for Outstanding Achievement in Popular Annual Financial Reporting (PAFR). We believe that this publication conforms to the award requirements and we look forward to continuing our commitment to quality financial reporting of all kinds.



**OKLAHOMA TEACHERS
RETIREMENT SYSTEM**

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